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Transcript

helios towers

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Helios Towers Q3 2018 Results

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Kash Pandya: Good afternoon, everybody. Thank you for taking the time to join our Q3 2018 trading update call. The slide deck we will be going through to is available on our investor relations website.

We are going to provide an executive summary of our performance, discuss the financial results in detail and there is time at the end for Q&A through our conference co-ordinator, Sebastian.

So let me introduce you to who is joining me on the call today. We have Tom Greenwood, our Group CFO and Manjit Dhillon, our Head of Corporate Finance.

Turning to slide four for our highlights. We continue to deliver EBITDA margin growth and this chart shows the 15 consecutive quarters of margin expansion we have achieved as well as the EBITDA quantum improvement. We are particularly pleased as we broke through the 50% margin mark in the third quarter. This was one of the key milestones we wanted to deliver, and we remain focused on breaking through the 60% margin mark in time.

Moving on to slide five, we have seen relatively slow revenue growth in Q3 driven by some fundamentals in 2018, which I will discuss shortly. More importantly, we continue to improve our adjusted EBITDA, increasing 22% year-on-year and adjusted EBITDA margin, which increased 9 percentage points year-on-year. This performance is similar to what we delivered last year and demonstrates the momentum that the business has in consolidations and operational efficiencies, driven by our business excellence programme.

Slide six highlights the volume improvement we have seen. While the tower count growth is relatively small, we have consolidated 52 towers in the course of the last 12 months, as our focus has really been to drive margin improvement by driving efficiencies for our customers as well as for ourselves.

We are pleased that our tenancies and tenancy ratio have increased, breaking through the 13,000 mark and delivering 4% improvement year-on-year.

Some of the dynamics that slowed the revenue growth in Q3 are driven by the ZTE issue during the course of this year. That embargo by the US has now been lifted, but the supply chains into DRC and particularly servicing Vodacom, who is the main customer for ZTE, still needs to be filled. We believe that will start increasing in Q4 and onwards into 2019.

What is encouraging is that we have seen a good start to Q4 in terms of Instructions to Proceed (ITPs) and site requests, which will ultimately seed the growth in Q4 as well as into Q1 next year. More importantly, the key driving indicator for us is the growth of our customers in our markets, particularly in Tanzania and DRC, which represent 80% of our business. Our customers that publish subscriber growth reported 11% growth in Tanzania and 14% in DRC for the 12 months' up to Q3, and this is very, very encouraging. It demonstrates they are getting the customer and subscriber growth, which ultimately leads to expansion initiatives, and we benefit as the only independent tower company in both of these markets.

In DRC, we have been investing in a backbone network, for example, and we believe that the growth our customers are seeing will translate into further top-line growth for Helios Towers going forward.

Slide seven, just to comment on recent developments. Tom will speak to this in more detail, but our corporate finance team have been working on further funding for the business. They have secured a $100 million term loan to support our expansion into new markets and organic growth in existing markets.

Regarding business development, our strategy has always been a three-pronged strategy for our business. One is to continue to drive organic growth in our four existing markets. Second is to look at attractive new geographic markets that we can expand our footprint into. The third prong of our strategy is to develop adjacent technologies that can leverage our operational capabilities such as fibre back hauling, data centres, particularly focusing on edge data centres, and small-scale technology development, which we are piloting in Ghana, for example. That is a primary focus for us in terms of expanding our top line.

We have talked about business excellence since we have been doing these calls but our business excellence strategy encompassed around our growth strategy has now been active for the last three years, and it is fully embedded in our view. This is one of the key driving forces that helped us to deliver 15 consecutive quarters of EBITDA growth, and actually, this quarter we have doubled our EBITDA margin from where we were in Q1 2015.

We have invested in technology supporting fuel efficiency, technology like solar, as well as digitisation in our business and that has helped us to deliver benefits that have gone directly to our EBITDA line. We continue to invest in our people. We believe that having skilled staff and local staff from the markets we operate in is a key success driver for us, and with that in mind we have trained up some 70 orange and black-belts in 2017 and are training a further 80 over the course of this year.

Some 35% of our staff will be trained in Lean Six Sigma capability by the end of this year and we are seeing real improvements coming through from our colleagues in the business, not only in our markets but also in our head office in London.

On that note, I am going to hand over to Tom to discuss the financial results.

Tom Greenwood: Thanks very much, Kash. I am on page nine where we see the summary table of the financials. As Kash has mentioned, a steady but strong quarter with us breaking through the EBITDA margin 50% barrier for the first time, which is a big milestone in our business. Looking at year-to-date numbers and comparing to year-to-date 2017, our revenue is up 4% and that has fed through to EBITDA growth, growing 25% year-on-year from a year-to-date perspective with both top-line and operational efficiencies driving that.

Turning to page ten where we see our revenue breakdown; again, very similar to previous quarters that you have seen on this page; virtually no change. The vast majority of our revenue comes from the African big-five MNOs, with 86% coming from Airtel, MTN Orange, Tigo and Vodafone/com. Our revenue breakdown by foreign exchange has maintained a similar mix as previous quarters with 56% of revenues in US dollars or Central African Franc being pegged to the Euro. Because of the mix of our opex in terms of currency, when this feeds down to the EBITDA line it equates to around 70% of our EBITDA being in hard currency.

Again, breakdown by country is virtually unchanged; Tanzania and DRC both accounting for roughly 40% and each of our businesses, Ghana and Congo-B, making up the rest.

If we look now on page 11, which focuses on our cost and margins. As you can see, our margin has grown from 25% back in Q1 15 to 51% in Q3 18, and we are focused as a team on continuing that trend upwards with our organic business plan that we have ahead of us. You can see that on the bottom left-hand side we have shown the cost of sales or site operating costs. As you can see, it is a steady trend in the right direction for those as well.

Going now to page 12, which is capex, year-to-date we have spent $94 million. We have maintained our guidance for the full year between $105 and $120 million. We anticipate being within that range come year-end, with maintenance and corporate capex being the fairly fixed or consistent aspect to our capex, usually between $20 and $25 million. The vast majority of the rest of the capex relates to growth, be that top-line growth - building towers or putting tenants on towers for colocations - or investing in solar efficiencies and other items like that, which are driving the margin improvement and the reduction in opex we've seen.

Still included in the capex guidance is the DRC backbone project, which is the large, 1,800km backbone network that we are building in DRC for key customers, discussed on our prior call. That project is ongoing and is expected to be finished by year-end as per the original timetable.

Turning to page 13, the summary of financial debt. The net debt of the group is virtually unchanged quarter-on-quarter, ending at $648 million, which is a change of $4 million from the previous quarter. As you can see, leverage continues to decrease in-line with EBITDA growth, with gross leverage now stepping down below 4.0x at 3.9x and net leverage again hovering just over the 3.5x range at 3.6x this quarter. We are continuing our conservative leverage policy, and we anticipate further reduction in leverage as our EBITDA grows in the coming quarters. With that, I will hand back to Kash.

Kash Pandya: Thanks, Tom. I am on slide 14 now; the last couple of slides before Q&A. We continue to maintain a very strong position in the markets we operate in. In Ghana, the only market in which we compete with other TowerCos, we reinforced our position during the course of this year by securing a 15-year contract, an extension of 10 years with the new number two market player, Airtel-Tigo, which is the merged entity between those two operators.

We are very pleased with that outcome because while Airtel-Tigo are still going to be consolidating and aligning their overlapped networks during the course of 2018, in the long term we expect to see growth from this number two market player. We have already started to see competitive dynamics kick in, with MTN being much more proactive in trying to take market share and improve coverage. Part of that outcome is that we are building towers for them in Ghana.

Regarding our growth in terms of margin, as we have said, 22% EBITDA growth year-on-year and we do not think that will slow down; we continue to drive the top line and the margin improvements through operational efficiencies.

We still have a very long secured contract pipeline at over $3 billion and average contract tenure close to eight-and-a-half years; so a healthy runway ahead of us and, as you see, we continue to extend contracts from the first point I made.

Regarding our revenue in terms of hard-currency revenue, that is 56% and translates to c.70% of our EBITDA being in hard currency, in USD and Euro-pegged currencies. Regarding our margin improvement, again, we expanded margins nine percentage points' year-on-year. For us as an organisation team, we are pleased that we broke through the milestone of 50%, delivering 51% margin in Q3 and we expect that to continue to improve.

In terms of our unlevered cash flow, we have seen a 38% improvement year-on-year, which is encouraging and demonstrates our overall strategy is performing to our expectations.

In terms of outlook, slide 15, we continue to drive organic growth in our markets, fundamentally driven by the strong macros that exist in our markets, high levels of GDP growth, low levels of penetration, growing population, growth urbanisation and the demographics of the population being very, very young, i.e., 70% of the population being below the age of 30.

The outlook for 2019 is, while we think that the organic curve will continue, we are very focused on expanding our geographic footprint into new territories where we can drive further growth in our business.

On that note, I am going to hand back over to Sebastian to help us co-ordinate questions and answers. Sebastian, over to you.

Operator: Thank you, Kash. To ask a question please press * followed by 1 on your telephone keypad now. If you wish to withdraw your question press * followed by 2. Today's first question comes from Rahul Bhat from JP Morgan. Rahul, please go ahead.

Rahul Bhat: Hi, guys, thank you very much for the presentation. Can I just ask a few questions? Let me start with the P&L. Tenancies do not seem to be growing as fast as your EBITDA. I guess part of this is because of the investment you did on hybrid power solutions. How much more is there to go or have you squeezed as much as you could out of the hybrid power solutions?

Kash Pandya: Yes, hi, Rahul thanks for the question. First on our revenue front, this is a lumpy business and you can have consolidations and realignment of portfolios within our customer base, which results in a temporary slowdown, which we have seen this in the past. What is encouraging is our customers are demonstrating high levels of growth in subscribers and we are seeing volumes starting to flow through in terms of ITPs and site requests. Therefore, we believe that is definitely going to pick up in Q4 and going into next year.

Regarding the opex initiatives, we have implemented the solar solutions that we had targeted in terms of 430 units. Those systems are now starting to deliver results. We believe that there is still more optimisation of these systems to occur and so we should see some more improvements in EBITDA flow-through.

Regarding hybrid solutions, we are looking to continue to employ hybrid solutions and make sure we optimise all the battery packs that we have on our sites across all of the markets that we have, so again we should deliver more opex savings there.

We are quite excited about our digitalisation solution of Service Now that we rolled out in the course of this year and actually in DRC only recently. In the last six weeks, we have managed to implement a fuel management system on Service Now. It brings a lot more accountability and accuracy, and we think that is also going to deliver improvement in fuel consumption within the business.

So along with the things I have described, we should see continued margin improvement and of course our business excellence strategy means that we're also looking at improving on our SG&A and direct costs as well outside of investment driving opex reduction.

Rahul Bhat: Perfect, that is great. If I can ask; last quarter you were saying - and you alluded to this before on expansion to other geographies; is there any other colour you can add to that, is there something you expect to close this year or is it more a story for next year?

Kash Pandya: Yes. All I can say is that we are putting a lot of time and energy into looking at the right opportunities to expand and of course, I cannot tell you more because it is very sensitive but I would hope that in the next 6 to 12 months we can announce something positive.

Rahul Bhat: Okay, perfect. Just on the new RCF, can I just confirm that it is pari-passu to the bonds?

Tom Greenwood: Yes, that is correct.

Rahul Bhat: Perfect. Probably one last question from my side; this is on the backlog. If I look at the total contracted revenue over the last couple of quarter's it fell by $150 million last quarter and another $130 million this quarter. Revenues are only around $90 million per quarter so are there some contracts, is the rent reducing or is there some other churn in contractors leading to this backlog decreasing on a very marginal level, but still, is there something else at play over here?

Kash Pandya: From my perspective, there has not been any change at all in terms of our contract churns or any contracts ending so maybe we can post this answer to you after the call if that is okay.

Rahul Bhat: That sounds great. Thank you. That is all from my side.

Kash Pandya: Thank you.

Operator: The next question comes from Mishankina Ksenia from UBP. Your line's now open; please go ahead.

Mishankina Ksenia: Hi. Thank you very much for the opportunity to ask my questions. How would your expansion plans impact your leverage? Thank you.

Tom Greenwood: We're looking at expansion in a - I wouldn't describe it as a transformational way; I'd describe it as a bit-by-bit way, if you like, so therefore we have raised a $100 million term loan for the use in setting up in new markets predominantly and this will mean that we are still within the covenant that we have on the bond.

Depending on the exact timing of the drawdown versus the new revenues and EBITDA coming through in any acquisition or any Greenfield build that we do, there may be a short-term slight change upwards in leverage but ongoing, in the medium term we do not see any change from it.

Generally, we feel comfortable in the 3.5x to 4.5x net leverage range. As you can tell, we have operated at the bottom of that generally for the last year or so and so we don't see any real change in the medium to long-term outlook; there just may be a short-term timing difference based on the timing difference between drawing and actually getting the revenues and EBITDA through.

Mishankina Ksenia: Okay, and what is the limit for your rating, please, in terms of leverage?

Tom Greenwood: Yes, the bond currently has an incurrence leveraged debt of 5x, which goes to 4x next March.

Mishankina Ksenia: Right. Sorry, in terms of the ratings, what is the limit from the rating agency perspective?

Tom Greenwood: It is over 6.5x, so we are very far away from that.

Mishankina Ksenia: Okay, thanks very much.

Operator: Our next question comes from Simrin Sandhu from FCV. Simrin, please go ahead.

Simrin Sandhu: Thank you for the presentation. Most of my questions have been answered. Just a very quick one; if you could maybe provide some capex guidance as you look to 2019, please.

Tom Greenwood: Yes, absolutely. We will be providing proper capex guidance in our next call but I can say from an organic perspective that the capex guidance will be similar to FY18.

Simrin Sandhu: Right. Would this be capex including acquisition spend?

Tom Greenwood: Within our guidance, there will be a small amount for some small acquisitions that we know about now but I am talking very small. For large material acquisitions, we would not include that in guidance at the start of the year just simply because we do not know about them but as soon as we did know about them, we would update that in the guidance.

That of course would change if we knew about a material acquisition at the start of the year; we would obviously include that but we may well not know about that right at the start of the year so we would update you through the year on that.

Simrin Sandhu: That is fine. Okay, fair enough, thanks for that.

Tom Greenwood: Thanks.

Operator: Next, we have a question from Yejide Onabule from Barings. Your line is now open. Please go ahead.

Yejide Onabule: Hi, there. Thanks for taking my questions and thanks for the call. First on the RCF, could you just tell us how much you are paying and what the maturity is and is it a bullet?

Then a few other questions on the timeline of potential M&A. Also on M&A previously you said that you would raise equity if you needed to so is this $100 million enough or do you think you might need to raise more debt and equity?

Tom Greenwood: On the debt, we are not disclosing the cost of it but in terms of ranking, it is effectively pari-passu with the bond. It is senior unsecured, similar to the bond.

In terms of timings of needing it for acquisitions and expansion, as Kash said, we expect probably something in the next 6 to 12 months but we will tell the market as soon as something happens on that and the debt is there and available to draw as and when we need it.

In terms of, is the quantum enough, yes, it is enough for what we see ahead of us now in the short-term effectively. If there were to be, for example, a material acquisition opportunity that came up down the line then we would need more funding but that may not just be from debt that may well be from equity as well. So we are keeping our options open.

Generally in terms of funding anything in the group we always look at (a) what cash do we have on balance sheet today, (b) what is the operating cash flow going to generate in the near term, (c) what is available through the debt markets, be that a bank loan or the bond market, and (d) from equity, again, be that private or public even and of course we were ready to do the IPO, which we paused on.

So we are keeping our options open but that is how we think of it and in terms of leverage, I have mentioned 3.5x to 4.5x is our target zone and we work within the boundaries of that.

Yejide Onabule: So the 3.5x to 4.5x, that is net leverage?

Tom Greenwood: Yes.

Yejide Onabule: Okay, great. I have two other questions, if I may. First is the update on the Tanzania IPO. We have seen that the government have been making some noises in Tanzania regarding IPO, so I am just wondering if there is an update on that?

Then the DRC backbone project; I am trying to understand how you get compensated for it. Do you just build the network and then you are compensated over time or are the operators contributing anything to this capex?

Then finally if you could go through the ZTE again, why your business looks down or why the retail revenue growth was slower.

Kash Pandya: Yes, no problem. On the Tanzanian IPO first; as we have said in the past, we are complying with the regulations and are preparing for submission. We submitted a draft prospectus some time ago, but the reality is since the listing of Vodacom, which was back in 2017 so over a year ago - mid 17 - it has been very quiet for all parties on the ground and, like you, we've heard of noises for Airtel and the other operators needing to list recently and that may be the case. However, certainly for us we are not being pushed in any way but we are compliant with what is required and are working through the process.

Regarding the backbone, the towers we are building; as Tom said, they are over a distance of 1,800km, spanning into new territories of DRC where there is no mobile signal today, accessing a further 15% of the population; some six to seven million more people will have access to mobile infrastructure.

These are large towers, more expensive than our standard towers for obvious reasons and the lease rate that the customer's pay reflects the capital cost of these towers.

What is exciting for us is that we have an anchor tenant and we believe that other MNOs in the market will soon start picking up space on these large towers.

More importantly, this is just the start of further branches coming off the backbone or the tree-trunk, as I like to call it, when we start growing branches of it to provide more coverage in to the population.

On ZTE, yes, I do not know if you recall but the US government back at the beginning of the year put a trade embargo on, sanctioned that company, and unfortunately impacted our customers, particularly Vodacom. ZTE is a key supplier of their active equipment and to an extent also for Orange. That meant that the roll out in DRC and Tanzania had to be stopped because they could not use that equipment and the supply chain dried up.

Of course, I think, about two months ago, that embargo was lifted by the US government on that company and our customers are now starting to build a supply chain, which takes a degree of time, particularly feeding into Africa. So that was the issue around ZTE.

Yejide Onabule: Okay, thank you very much.

Operator: The next question is from Henrique Morato from Pharaoh Management. Henrique, please go ahead.

Henrique Morato: Hi. Just one quick question from me; on your cash balance, is there a number that you look at, that you feel comfortable managing the business? The reason I am asking is obviously you are growing significantly and investing in the business from a cash flow generation point of view. It has been consuming cash so I wanted to understand a little bit; how should that evolve over time and how much are you planning to draw on this new facility in the short term? That is it, thanks.

Tom Greenwood: Yes, absolutely. We feel comfortable with a cash balance around the $50 million mark, give or take, and that is generally how we manage our cash. We have two facilities available to us at the moment; one is the revolving credit facility that we took out at the time of doing the bond, which is for $60 million, and the other is this new term loan that we've just done for $100 million. So on top of our cash on the balance sheet we have $160 million available to us that we could draw at any time we wanted.

So we feel comfortable with that. We would probably anticipate drawing a small amount of the term loan possibly before year-end, depending on some exact timing of things that are happening right now so if that did not happen before year-end it would be in Q1. Then probably a bit of a drip feed through 2019 rather than everything at once, albeit that could change.

The reason I say drip feed is that we are looking at some more Greenfield opportunities that happen over time rather than all in one go like a large acquisition. So that is where we sit now; that could change and if it does, we will update you straightaway.

Henrique Morato: Okay, and one last question if I may; I know you're not revealing the costs of this term loan but when you look at the average cost of debt of the business - and I know that probably hasn't changed much because the bulk is in the bond but it's probably going down - no? - given the size and the scale that you are achieving and the future growth ahead of you.

Tom Greenwood: Yes, we certainly hope so and I think when we came to the bond market it was our first bond and it was the first large bond for some of the markets we operate in as well and they perhaps aren't as familiar to investors. But yes, we definitely hope that investors have become more familiar with us over time. We hope that we have delivered the results; we think we have. EBITDA keeps growing and leverage keeps going down and we are definitely focused on that continuing quarter-on-quarter going forward so definitely looking forward to catching up with everyone in February when we do our year-end call.

I think over time familiarity and delivering the right numbers breeds confidence and so, yes, I would definitely hope to agree with you on that point.

Henrique Morato: Okay, thanks.

Operator: There are no further questions. However if you would like to ask any follow-ups it's * 1 on your telephone keypad.

We have a couple more questions. The first one comes from Federico Forlini from Aviva Investors. Federico, please go ahead.

Federico Forlini: Hello. Thank you for taking my question. I just have a question about the backbone. When do you expect to see some revenue contribution from the backbone?

Kash Pandya: We expect that to start flowing through in Q1 in effect. We are due to complete the full backbone by the end of this year and then of course there's time for our customers to load their equipment up so we think that by the end of Q1 we should start seeing some revenues going through and then we expect more expansion in that area.

Federico Forlini: Thank you.

Operator: The next question is a follow-up from Yejide Onabule from Barings. Please go ahead.

Yejide Onabule: Hi, sorry. I did not hear the maturity of the term loan; is it a five-year loan or what is the maturity of it?

Tom Greenwood: Yes, it matures just before the bond so similar to the current RCF in place.

Yejide Onabule: Okay, thank you.

Operator: Finally, we have a follow-up from Henrique Morato of Pharaoh Management. Henrique, please go ahead.

Henrique Morato: Yes, just a quick follow-up on how you look at the credit ratings. Is it basically the markets where you operate and given the sovereign ratings you see there and you don't really have much hope that you could significantly improve the ratings or when you discuss with the agencies is there a level of scale or leverage where you could be rated significantly above the sovereigns of your key markets?

Tom Greenwood: Yes. It is something we discuss with them obviously, when we meet and we will be meeting them again soon. I think the way it is viewed is that we can be a notch or two above the country ratings and that is generally, where we are. I think potentially there would be a chance of an uplift by one notch but again I think since we first did the rating there have been some slight downgrades of some of our markets as well, which maybe means that there is a ceiling on where we currently are.

But we hope, going back to what I've said before in terms of investors getting comfortable with the business and how we operate and our markets, which we believe are some of the greatest markets in the world to be in for this sort of business, hopefully the ratings industries also see that. So we look forward to our next discussion with them but I cannot really say at this point whether we would get a notch up or not because I think that is really for them to decide.

Henrique Morato: Okay, thanks.

Operator: We have one final question that has been registered from Kay Hope of Bank of America Merrill Lynch. Kay, please go ahead.

Kay Hope: Hi, thank you very much. A quick question about DRC and elections in December; can you talk at all about whether you see those going ahead and whether or not you expect any sort of disruption or other issues in relation to that?

Kash Pandya: Yes, hi, Kay. We know as much as you do but our team on the ground - and bear in mind, we have our one expat who's head of our supply chain and who is French; the rest of the team is Congolese - what I hear from the ground is that currently the preparations are all underway, the voting machines are being distributed, the opposition party have now nominated one individual to go against the ruling party candidate, Shadary, and that was only confirmed on the 11th this week.

So by all accounts, it looks like the elections are on their way. The ruling party seem to be ahead of the game in terms of the rallies they are holding and the meetings around the whole country actually and so we think it will happen and we think that is a good thing.

Regarding disruptions, etc, I don't have a crystal ball on this but what I can say is that our business has lived through two elections before. We are robust and are well-prepared. We make sure we plan for the worst and work for the best. We have our contingency plans in place to secure our service to our customers but also to ensure our assets and our people are kept safe.

But we think that at this stage the intelligence coming to us is that the elections are due to happen on 23rd.

Kay Hope: Perfect, thank you very much.

Operator: We have no further questions at this time.

Kash Pandya: Okay. Thank you very much, everybody. We appreciate the quality of the questions and we look forward to talking to you again in February.